

RURAL COMMODITIES WRAP



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KEY POINTS

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Agricultural markets have been something of a mixed bag recently. Seasonal conditions are generally good, which has kept cattle and sheep prices at or near historic highs on restocker demand. New season grain futures are generally lower than last season on expectations of strong supply closing domestic premiums, but as long as yields are good, producers should be happy.

More concerning is the ongoing weakness across fibres, sugar and more recently dairy (especially cheddar). While a largely recovered Australian dollar explains some of the downward pressure, weak global demand fundamentals for some commodities will be an issue over the coming months.

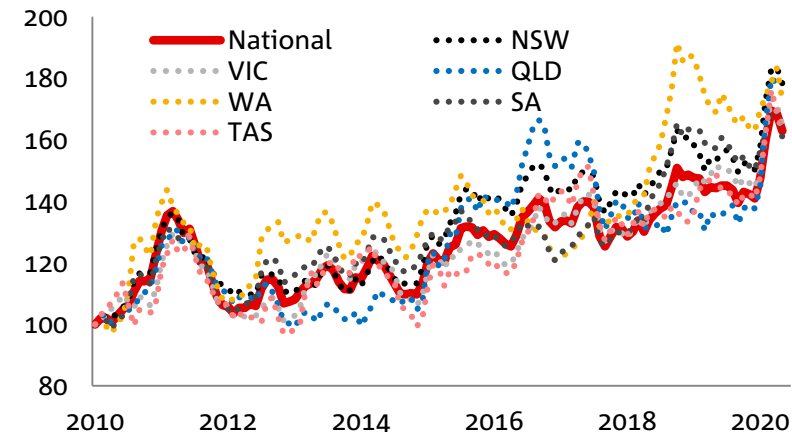
On the other hand, a second wave is well underway in some countries. Here in Australia – which has to date effectively suppressed the virus – an outbreak in Victoria is being closely watched. There are already reports of panic buying in Melbourne. If there is an uptick in this activity some commodities may see a demand surge as was seen in March, although this has yet occurred in earnest.

Another spanner in the works is the recent coronavirus outbreak in Beijing. The Chinese Government claims the outbreak was spread through imported salmon and has now moved to increase restrictions on some imported meat products, including some US chicken. Whether this is good, bad or indifferent for Australian agriculture remains to be seen, but it does highlight the ongoing risks associated with global trade during a pandemic.

Overall, the NAB Rural Commodities Index was down 3.3% in May. Partial data for June suggests a further unwinding is likely. That said, the index remains well above year-ago levels.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	Mar 20	Apr 20	May 20
Wheat	▲ 1.8%	▲ 8.9%	▼ 9.8%
Beef	▲ 12.4%	▲ ▼ N/A	▲ ▼ N/A
Dairy	▲ 3.2%	▼ -0.8%	▼ 9.5%
Lamb	▲ 8.3%	▲ ▼ N/A	▲ ▼ N/A
Wool	▼ 4.9%	▼ 14.3%	▼ 7.5%
Sugar	▼ 16.1%	▼ 15.8%	▲ 2.4%
Cotton	▼ 5.2%	▼ 7.5%	▼ 0.1%

Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.



IN FOCUS: ARE AUSTRALIAN CATTLE PRICES SUSTAINABLE?

With MLA's headline cattle indicators back in action and reporting prices at or near all-time highs, we are left wondering how sustainable cattle prices really are in the midst of a global pandemic and what may be the worst recession since the Great Depression.

EYCI reached a record 772c/kg in mid-June, almost entirely driven by intense restocker demand, as a national cattle herd at quarter of a century lows, looks to rebuild in line with better seasonal conditions. So many producers in Queensland and New South Wales destocked over the drought that even modest buying activity by individual buyers is seeing intense bidding activity.

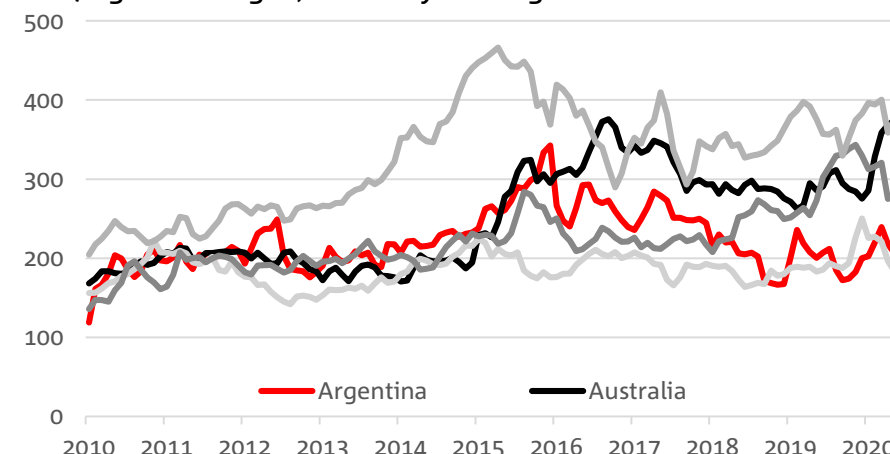
While this is likely to continue as long as it keeps raining, there are a number of wildcards for the industry that are worth noting. Firstly, demand for Australian beef in East Asian markets is likely to remain subdued while the pandemic continues. While South Korea, Japan and China have largely contained the virus, consumers are likely to remain cautious about dining out and unnecessary discretionary spending. In addition, Chinese trade policy has already restricted a number of imported meat products, including from four Australian processors. Moves against European salmon and some US chicken processing may open doors for Australian proteins, but this is far from certain.

On the other hand, processor capacity, particularly in Brazil and the US is likely to suffer if the virus continues unchecked. Beef shortages have already occurred in the US due to coronavirus outbreaks at processors, and with a second wave intensifying this could flare again. While a virus outbreak closed one Australian processor, our challenges are minor compared to some other countries.

What does all this add up to? It is understandable that restocker interest is so high given the strength of the season in many areas, but Australia's cattle market cannot remain detached from global fundamentals forever. With prices moving in the opposite direction to local prices in our major competitors, prices will likely fall once restocker interest recedes.

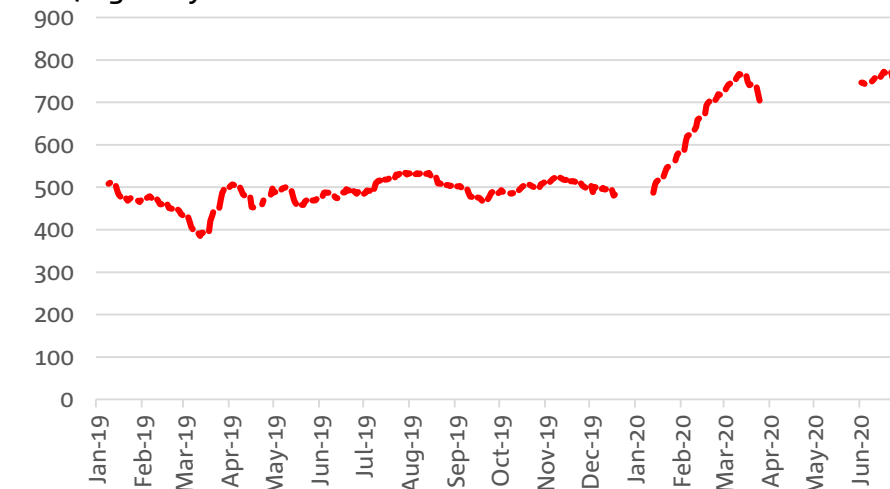
GLOBAL STEER PRICES

AUc/kg live weight, monthly average



EYCI

AUc/kg daily



Source: MLA, NAB Group Economics

SEASONAL CONDITIONS

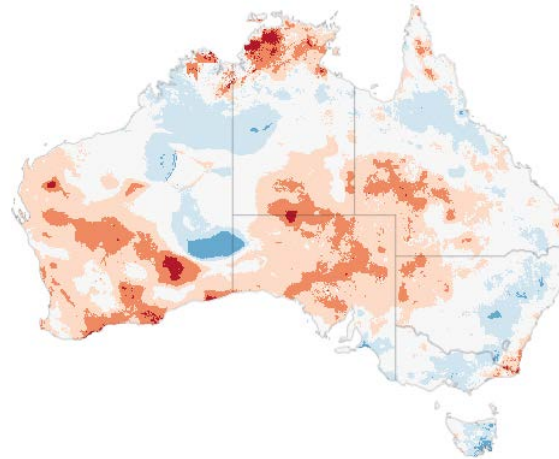
Seasonal conditions are looking very good in most of Victoria, New South Wales, South Australia and Tasmania, with most agricultural regions in these states enjoying above average soil moisture, drier conditions in May notwithstanding. While Western Australia and Queensland could do with more rain, the west has seen some falls at least. The soil moisture deficit in WA is keeping the crop outlook dependent on forecast rainfall materialising.

The Bureau of Meteorology's three-month outlook (released on 25 June) points to a wet winter and early spring across most of the country, although the WA wheatbelt is forecast to be around average and parts of Victoria, South Australia and Tasmania may be below average. This is generally good news, particularly for New South Wales and Queensland, which suffered badly over the last couple of seasons.

The outlook reliability through winter is generally reasonable through winter and into spring, although nothing is guaranteed.

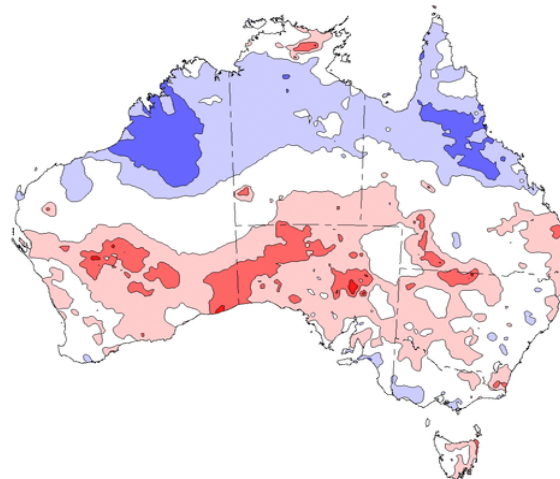
ROOT ZONE SOIL MOISTURE

11 June, relative to average



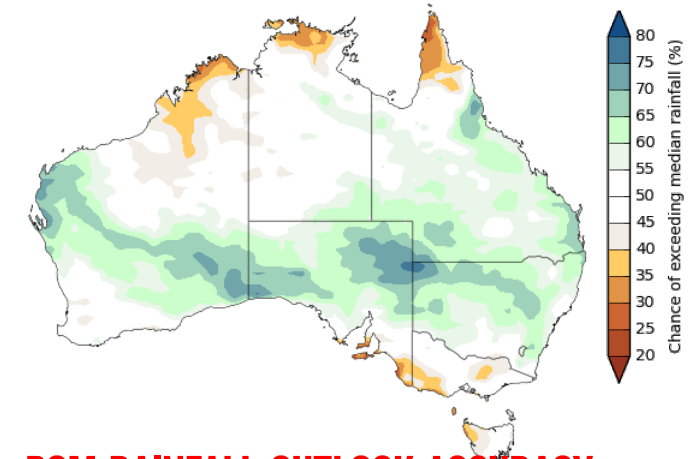
RAINFALL DECILES

May 2020



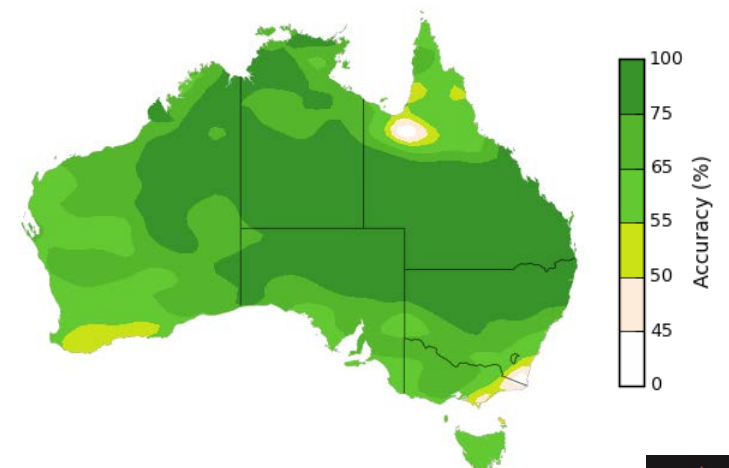
BOM RAINFALL OUTLOOK

July – September 2020



BOM RAINFALL OUTLOOK ACCURACY

July – September 2020

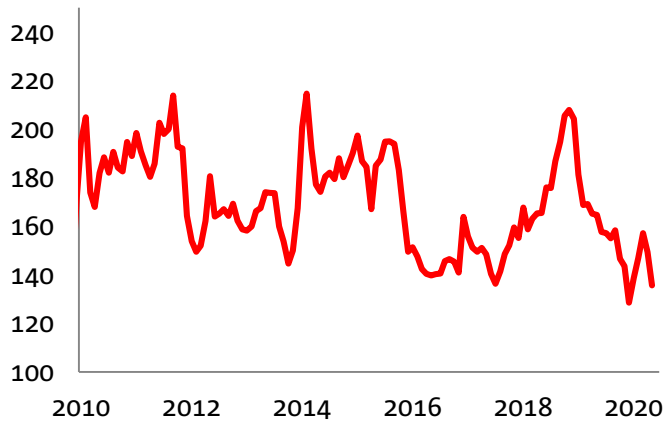


Source: Bureau of Meteorology

FARM INPUTS

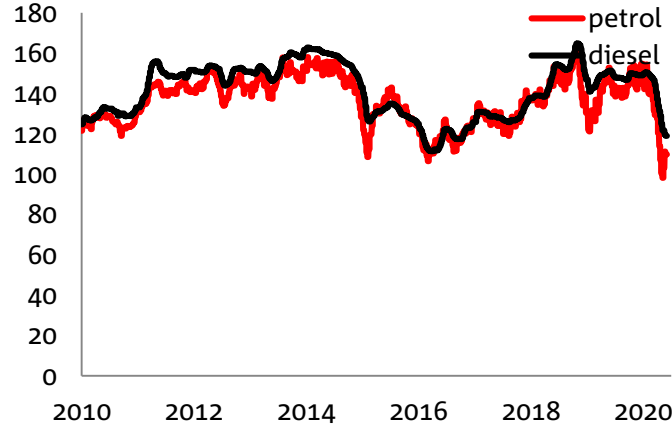
NAB FERTILISER INDEX

AUD index



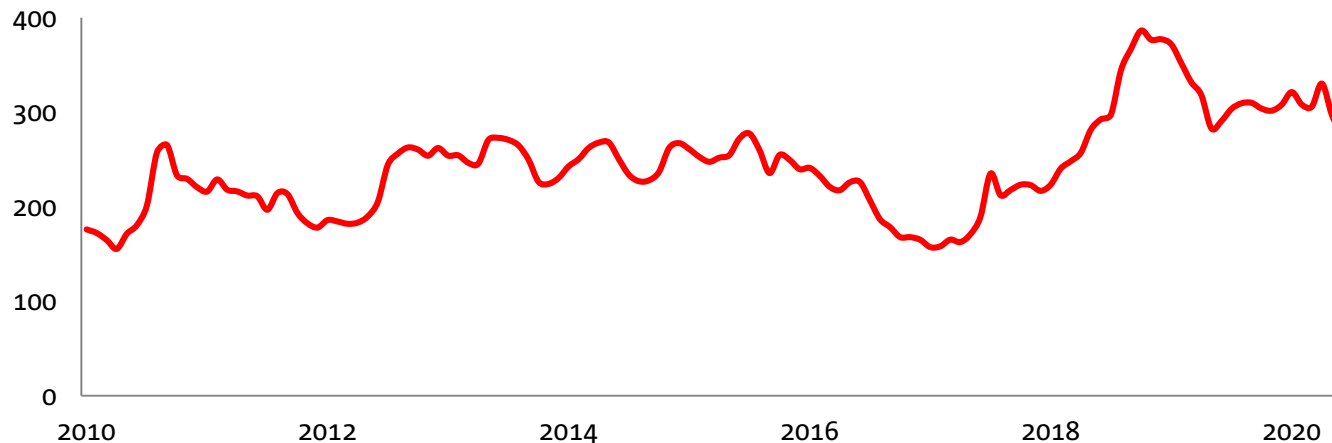
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB FEED GRAIN PRICE INDEX

AUD/t



Oil prices collapsed to sub-US\$20/bbl during April, but are now back up, around US\$40/bbl. We expect the Brent to rise to US\$45/bbl by the end of 2020. Domestic petrol prices had tanked, but are now back up somewhat. That said, national average diesel prices have fallen from around 150c/l to around 120c/l (depending on location).

Fertiliser prices have jumped around somewhat this year, but overall remain well below levels seen 18 months ago. We had harboured fertiliser supply concerns earlier this year (along with agricultural chemical), but this seems to have stabilised.

Feed grain prices have been lower over the last two months. Our index fell 10.1% in May and another 7.2% in June (to date). If seasonal conditions continue to perform well, domestic feed grain prices should continue to ease.

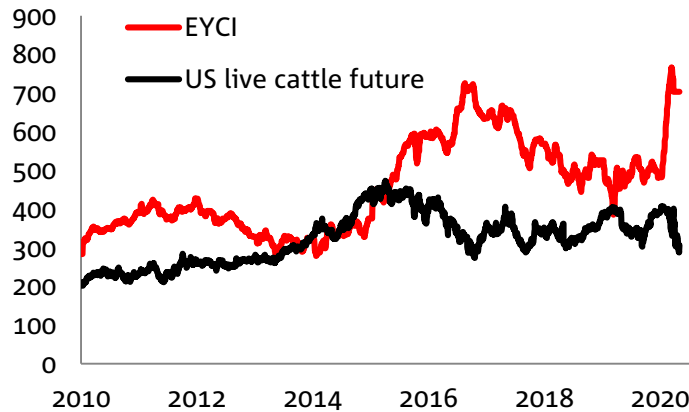
The AUD has rallied relatively strongly recently from its lows in April to the high 60s range at present. We have revised up our forecast profile for the exchange rate and now see the AUD/USD at US72c at end-2020 and US75c at end-2021. This will help with input costs but limit local grain prices.

Source: Bloomberg, Profarmer and NAB Group Economics

LIVESTOCK

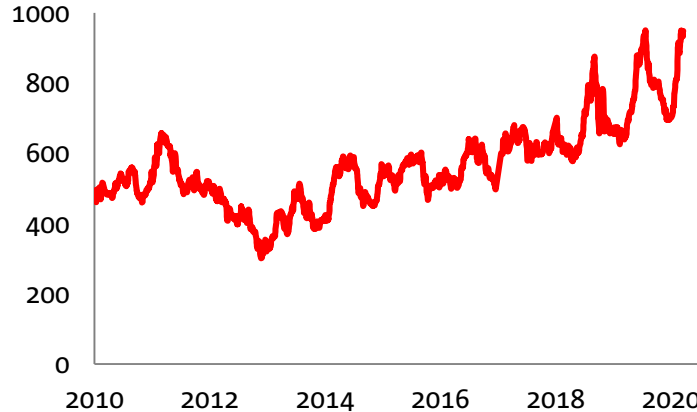
CATTLE

AUc/kg



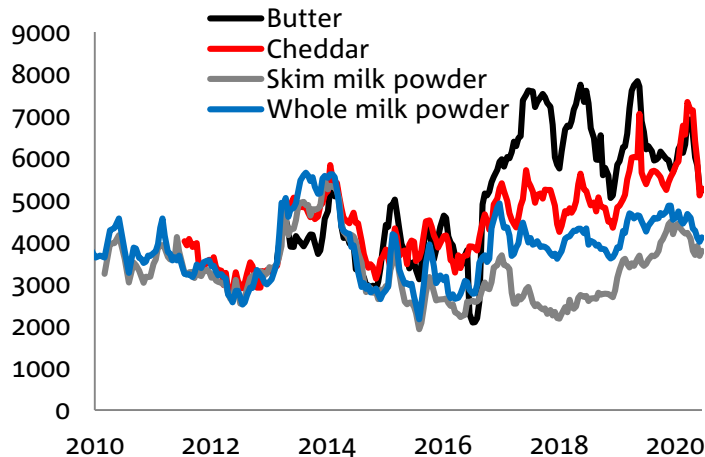
LAMB

National Trade Lamb Indicator, AUc/kg



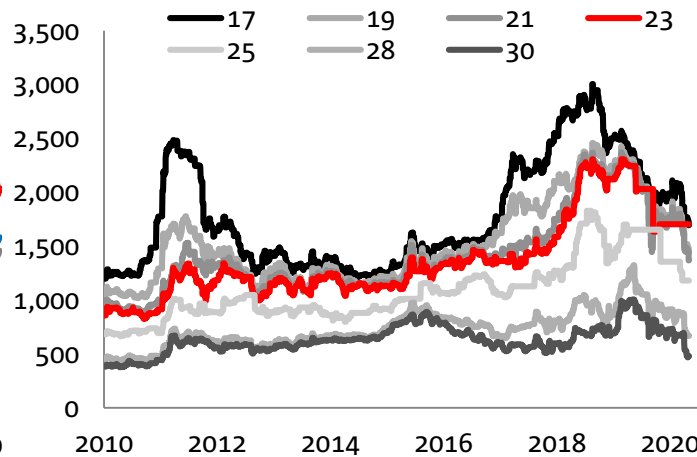
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



MLA's headline cattle and sheep indicators have returned following a two month coronavirus-induced absence and remain at or close to record levels.

EYCI reached a record (and frankly shocking) 772c/kg in mid-June, as restocker demand amid strong seasonal conditions completely steamrolled any concerns about global demand during the worst pandemic in a century. Whether this is sustainable remains to be seen – certainly there is huge underlying demand for stock with grass on the ground and the national cattle herd at quarter of a century lows. Processor capacity in South America is also a major concern. But Australian prices are now very detached from global fundamentals and if seasonal conditions turn there is a long way to fall.

NTLI is below its March peaks but in the high 800s range is still remarkably buoyant. That said, the other side of the sheep game is in dire straits, with EMI at \$11.10/kg.

Global Dairy Trade auction results have been mixed in USD terms this year, but the higher AUD has put pressure on local prices. Opening prices are now out and generally reasonable given global events. Saputo opened at \$6.40, Fonterra at \$6.06 and Bega \$6.40 (southern VIC) and \$6.55 (northern VIC).

Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

WINTER CROPS

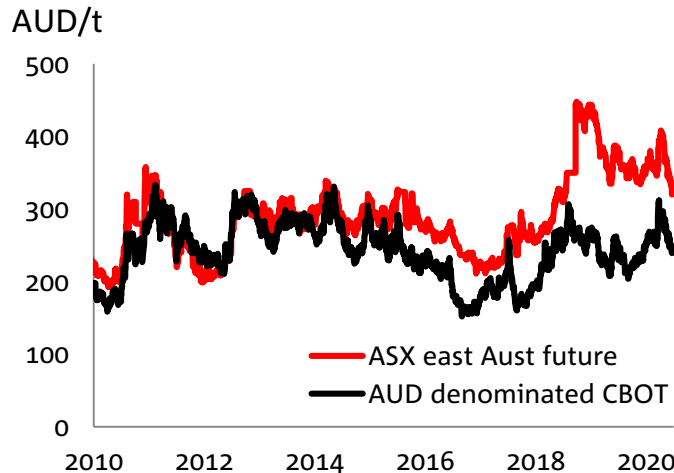
While some regions are now chasing rain (particularly in Western Australia and Queensland), if winter sees average or close to average rainfall, we should be on track for an average to somewhat above average national crop. Our model sees a *very speculative* 2020-21 wheat crop in the 25.9 million tonnes range based on average rainfall for the remainder of the season and 29.0 million tonnes, based on 50% above average rainfall for the remainder of the season.

AUD denominated wheat prices spiked earlier this year in response to a plunge in the AUD combined with coronavirus-related buying activity and fears of global export restrictions.

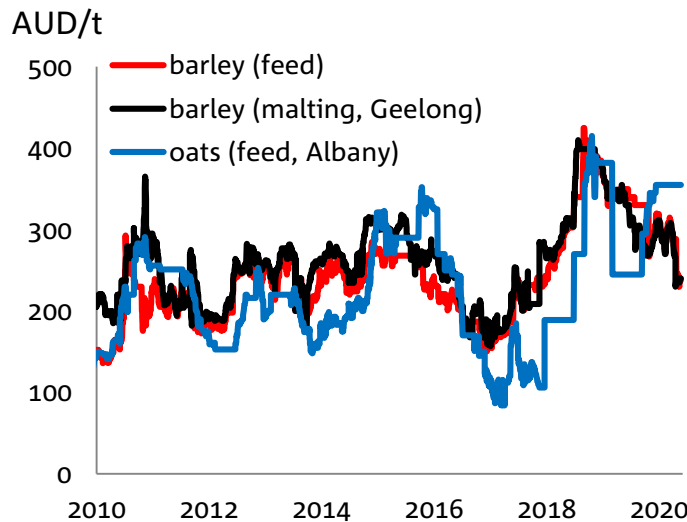
Both of these factors have now unwound (in the case of the AUD, spectacularly so), pushing both domestic and AUD denominated global prices lower. A historically large basis remains, a function of very limited carryout after two poor seasons. With the current season largely on track, we expect this gap to close (on the downside for local prices) with new season crop availability at the end of this year.

The Chinese Government's decision to impose steep tariffs on Australian barley has hit prices, although with little carryout it will be November before this is largely felt by producers.

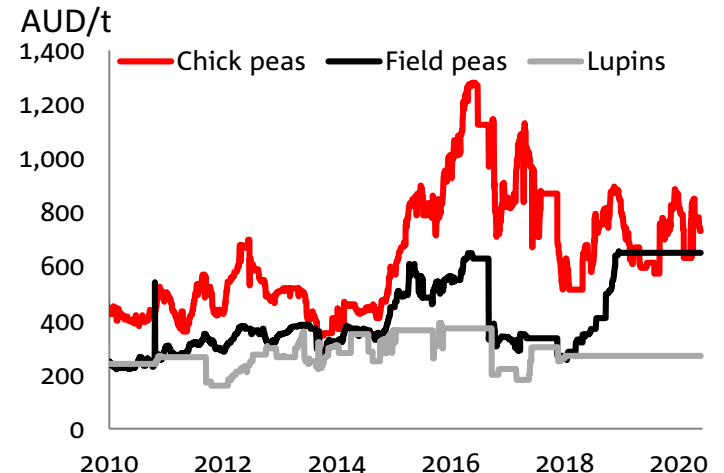
WHEAT



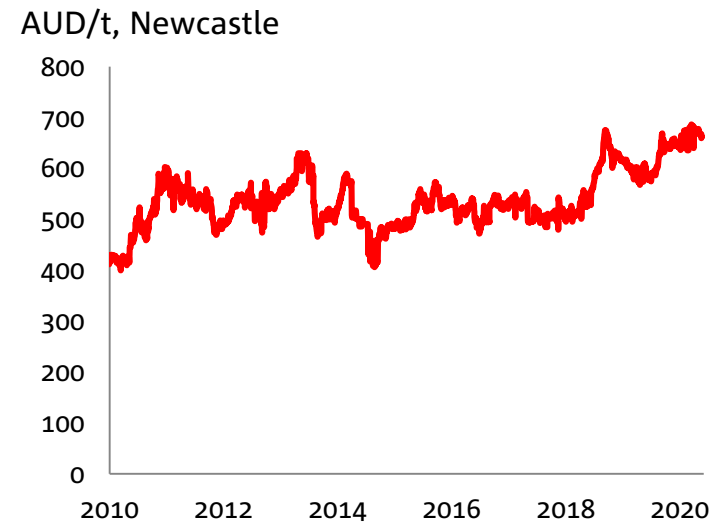
COARSE GRAINS



PULSES



CANOLA



Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

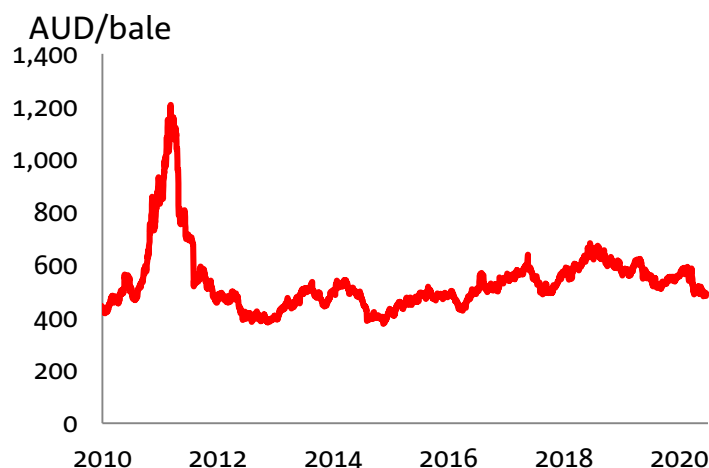
SUMMER CROPS, SUGAR AND HORTICULTURE

Generally good inflows into the Murray-Darling basin have seen temporary water prices fall, although total basin water in storage remains low by historic standards.

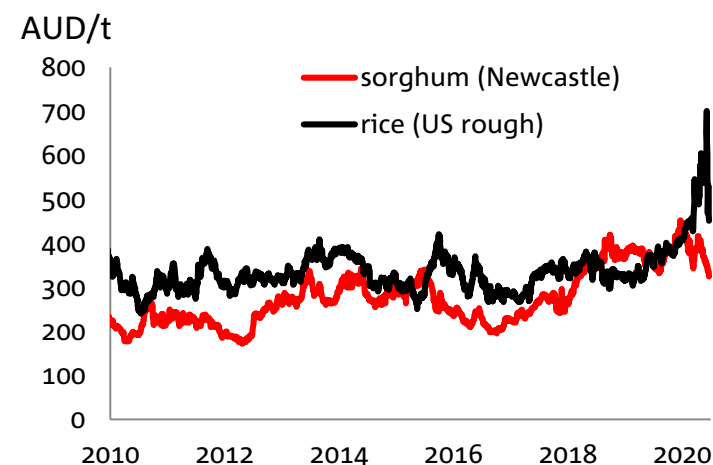
Cotton prices remain under pressure, a function of weak global demand fundamentals and AUD issues. Fashion and clothing is unlikely to be a priority for people who are largely unable to leave their houses for non-essential purposes, and some offices may see working from home as an ongoing rather than temporary proposition. The latter could be a structural rather than cyclical trend.

Fruit and vegetable prices were more stable in May. Fruit fell 0.2% after gaining 10.5% in April, while vegetables dropped 1.3% big swings in March and April. Fresh produce continues to be widely available, although we continue to note that the sector faces substantial risks around labour availability, particularly with backpackers heading home. Potential outbreaks in packing sheds would cause serious problems. For now though, supply remains mostly strong. Demand has been somewhat mixed, with produce dependent on the food service industry struggling.

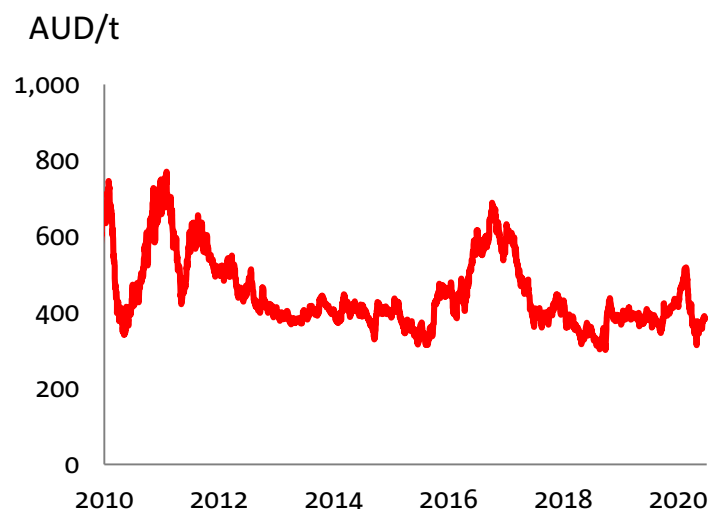
COTTON



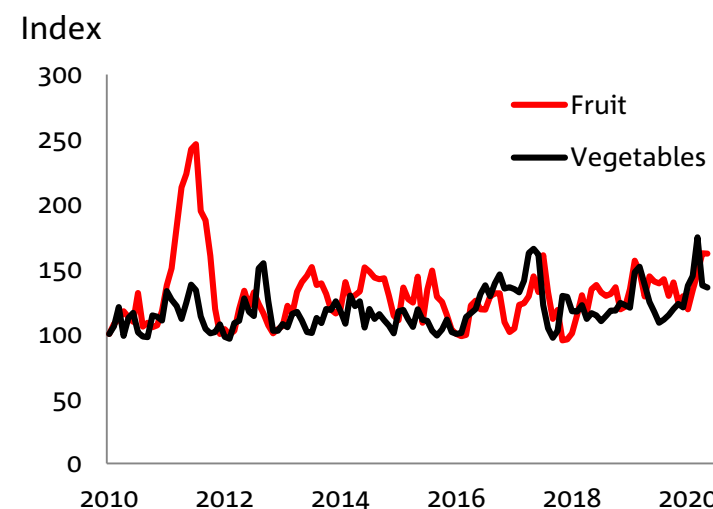
SORGHUM AND RICE



SUGAR

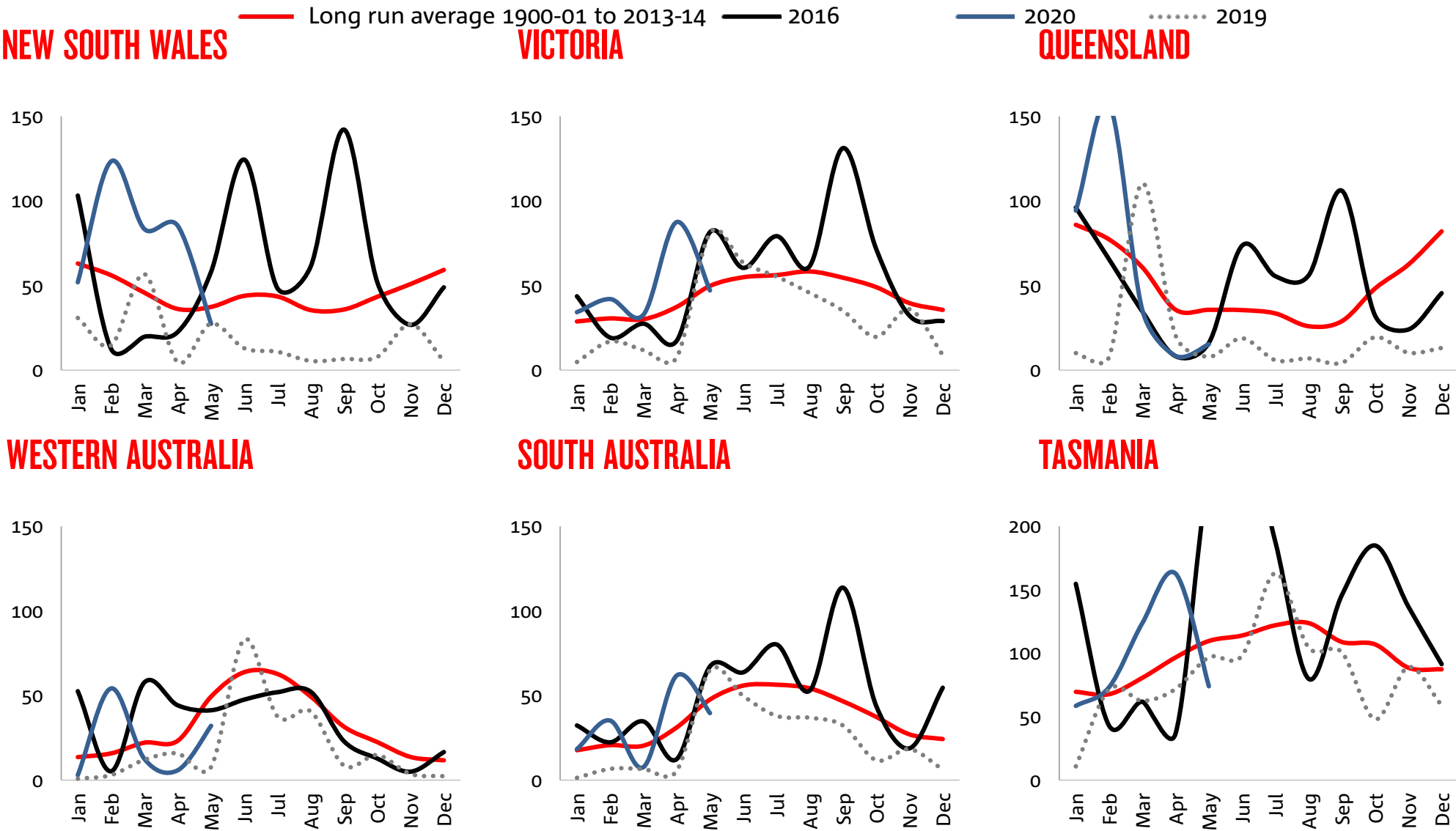


FRUIT AND VEGETABLES



Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

MONTHLY AVERAGE RAINFALL IN WINTER CROPPING REGIONS (MM)



Source: Bureau of Meteorology and NAB Group Economics



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